Bank of Montreal
First with people

Annual Report 1970

Banking and the 1970's

file
Bank of
Montreal

Remarks by

J. LEONARD WALKER,
PRESIDENT,
BANK OF MONTREAL

To

THE MONTREAL SOCIETY
OF FINANCIAL ANALYSTS,

January 14, 1970

It is a great pleasure for me to be here today. So far as I know, this is the first time the President of a chartered bank has ever addressed a financial analysts' meeting in Montreal, and thus I am able to chalk up yet another B of M first. Seriously, the meeting provides a welcome opportunity for me to talk about banking and my favourite subject, the future plans of Canada's First Bank.

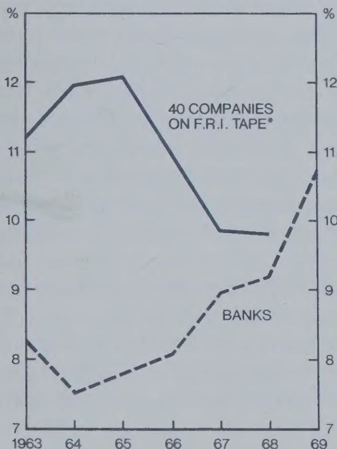
A few weeks ago, just when I was considering what I might say to you today, the New York Times ran a half page article under the headline "Foes Multiplying, Banking Outlook Near Its Worst". After reading the article I felt the outlook for Canadian banks was relatively good by comparison. But some of the problems faced by both U.S. banks and Canadian banks are remarkably similar. For instance, here is a quote from the New York Times article. "For the vast majority of the nation's banks, 1969 has been a year of unparalleled prosperity . . . coming at a time when borrowing costs are at a level not seen since the Civil War, this surge in profits has produced an intense public reaction against banking".

Except for the adjective "intense" one might equally apply the quotation to Canada. The publication of the 1969 profits of the chartered banks in this country has resulted in questioning in certain quarters as to whether bank profits are too high. From an analyst's point of view, it seems to me this is a vital question and one that warrants study.

I am inclined to the view that the banking fraternity of this country may not have explained its profit record in the past to the extent that it should have. While it is true that earnings of major banks are in large figures, surely this does not in itself mean they are too high. In part, all this signifies is that Canadian banks are large. If one compares earnings in relation to assets, for instance, earnings are not out of line by international standards. The seven largest Canadian banks had a balance of revenue equal to 1.14% of total year-end assets in 1969 and 1.06% in 1968; the comparable figure for large U.S. banks is not yet available for 1969 but in 1968 it was 1.09%.

If, for any reason, this is not considered the most relevant comparison, we can examine return on capital. In order to make

valid inter-industry comparisons, it seems to me one should look at balance of profits before dividends. In 1968 for Canadian banks this represented 9.12% of shareholders funds as compared with 9.81% for a representative group of Canadian companies. Last year the all-bank ratio rose to a 10.62% and for the B of M it was 11.75%. While comparable industry figures for 1969 are not yet available, on the basis of 1968 figures it would be easy to list many other corporations with higher profits in relation to shareholders funds. As I told B of M shareholders at our annual meeting in December, bank profits are only now coming into line with those of other businesses.



RATES OF RETURN ON EQUITY

*Selected on the basis of availability of data on the Canadian compustat tape at the Financial Research Institute.

I make no apology for our profits — they are not unreasonably high either in relation to the large sums of money we handle or in relation to shareholders funds. Furthermore, there is no reason why banks should not continue their efforts to improve profits through efficient operations and by increasing their service to customers both in Canada and abroad, and thus keep bank stocks in favour as sound investments.

In my view there is an even more compelling reason for allowing banks freedom to maneuver in a free enterprise environment. If the expansion of output that Canadians can reasonably expect in the 1970's is to be achieved, I feel that banks will have to be allowed to play their full part in mobilizing the savings of Canadians.

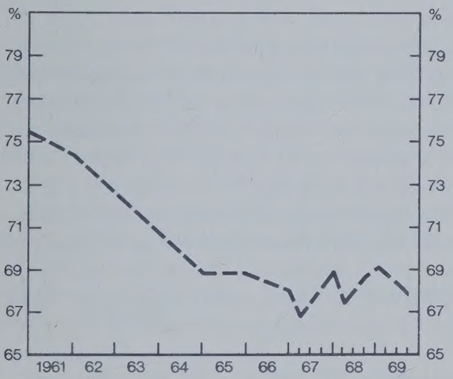
As pointed out in the New York Times article I referred to a moment ago, the needs for investment in the 1970's are going to be tremendous. The United States GNP is expected to double to $2 trillion by 1980. One of the developments at the Bank of Montreal in recent years has been an increasing emphasis on long-range planning in the course of which we have developed our own estimates of the future expansion of the Canadian economy. We expect Canada's GNP to increase at a slightly faster rate than the United States and, before the end of the decade, to reach $160 billion.

I could go into considerable detail about the economic outlook for the 1970's as we see it but forecasts have been made on numerous other occasions. Instead, I would like to confine my remarks to the related financial outlook. Judging from the real demands likely to be placed on the economy, we foresee upward pressure on prices continuing, although, hopefully, not to the degree we have seen recently. This will inevitably be reflected in a monetary policy which can be expected to be somewhat less expansionary than it was during the last half of the 1960's.

And here we come to a point that has been discussed extensively in the United States but which has not been explored in Canada recently. While many years ago deposits with chartered banks represented the overwhelming bulk of the liquid resources of the community, the situation has changed markedly in recent years for a variety of reasons, including the growth of other institutions and the development of the short-term paper market. Naturally, the objective of monetary policy is to act on the community's total liquidity. But, just as in the United States, the initial impact of monetary policy in Canada falls on the chartered banking system whose size is closely controlled. While monetary policy is applied as necessary in the national interest by the Bank of Canada, the banks must also face the regulations imposed by the Bank Act and these are more onerous than those faced by other financial institutions.

Thus a crucial question for the banks is whether they will be permitted to compete and maintain their share of the total market for deposits. The banking system's share of total liquidity fell from 76% in 1960 to just under 67% early in 1967. In the new competitive environment engendered by the revision of

the Bank Act that year, the banks' share edged up to 69% by the end of 1968.



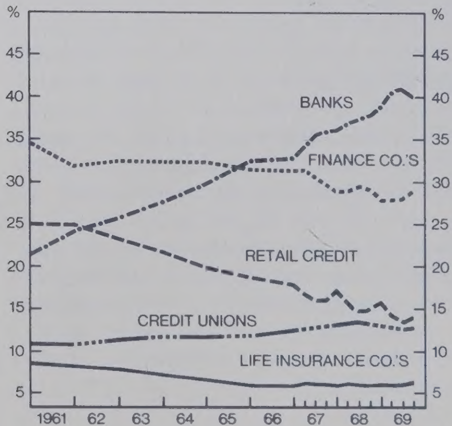
THE CHARTERED BANKS' SHARE OF GENERAL PUBLIC HOLDINGS OF LIQUID ASSETS

But as I have said, in a situation where restraint is the order of the day, the ability of the banks to keep pace with other financial intermediaries is impaired since the burden of a restrictive monetary policy falls directly on the banks. In recent months, the banks' share of financial intermediary deposits has been falling once again and I am very much concerned that, with a continued restrictive monetary situation, this trend may continue. All things considered, for the next few years, we are planning for a somewhat slower growth in Canadian dollar chartered bank deposits than we achieved in the late 1960's.

On the other hand, the demand for loans is expected to be very strong. I spoke earlier of the tremendous economic expansion expected in the 1970's. This will inevitably result in heavy capital expenditure requirements. While banks are not usually considered a prime source of funds for capital purposes, it is a fact that when industry is heavily committed to a capital spending program, the demand for short-term funds always rises. In addition, until the recent tight money period, banks have been looking more kindly on capital loans, particularly to assist in developing natural resources, sometimes even taking a piece of the equity as partial compensation. In another lending area, the high rate of housing starts that we foresee will ensure an active demand for mortgage money and the banks will provide their full share. The trend towards increasing farm mechan-

ization should continue and attendant on this will undoubtedly be increased demands for bank loans from the farming community.

Consumer credit has been the fastest growing area of demand for loans in recent years. The banks are strong supporters of the anti-inflationary policies of the monetary authorities and so long as restraint is necessary, the banks may be expected to allow their share of total consumer credit to decline. Indeed, the banks' share has fallen in recent months, with consumer credit of chartered banks declining 1.4% in the quarter ended September 30th while balances of other lenders rose by 4.2%.



THE CONSUMER CREDIT MARKET

(shares held by various institutions)

Now I'd like to turn to the trends I expect in the level of interest rates which, as this audience will appreciate, is the price that helps to bring the demand and supply for funds into balance. Some people seem to think that banks set the rates. Of course they don't. We must change our rates as frequently as required to keep them in line with market forces in order to stay competitive, both domestically and internationally. If we get off market we soon know it!

In attempting to quantify interest rate levels that we may expect during the early seventies, one factor we look at is the relationship between inflation and interest rates. If one calculates the annual percentage increase in consumer prices and

deducts this from the long-term government bond yield, one arrives at a historical series which fluctuates in a rather narrow band about 3%. This might be termed the real rate of return for investors. When prices rise, they demand an equivalent increase in the interest rate. Therefore, if one projects a declining rate of inflation in the next few years, there should be a corresponding decline in the long-term government bond yield. Our own guess is that, all things considered, such bonds should yield about 6½% in 1975.

So far I have tried to make the point that there are pretty substantial growth prospects for the Canadian economy in the 1970's as well as for the banks. Now I would like to say a few words about what the Bank of Montreal intends to do in the light of the economic and banking atmosphere that we foresee.

Let me begin this section of my remarks by admitting that for many years the Bank of Montreal's performance lagged behind that of other Canadian banks. We were Canada's largest and most influential bank for more than 100 years. However, beginning perhaps as long ago as the 1920's, complacency rather than an aggressive spirit prevailed, the Bank's share of the market began to decline and our record of progress became pretty lacklustre. When it became clear that nothing less than drastic changes would turn the Bank around, we decided to call in management consultants for advice and guidance. That was just 4½ years ago and since that time I think it is fair to say that the grand old lady of St. James Street has radically changed her course.

We certainly have no regrets about that step but it has not been an easy period. Our personnel have worked like trojans and the results are now starting to show — you need only look at our last year's statement to confirm that. Let me discuss briefly some of the major steps we have taken.

Basically we re-oriented our philosophy towards the aim of providing more and better financial services, by fully qualified people, to all sections of the community rather than treating the provision of credit as the Bank's prime function.

Thus, we first turned our attention to modernizing our per-

sonnel policies. Among the steps involved was the institution of a new personnel evaluation system based on the achievement of objectives. Job descriptions were written for all posts and clear reporting lines established. Our pay scales were reviewed and, based on independent surveys, we established a range of remuneration for each post on a fully competitive basis. These ranges are reviewed regularly to ensure they remain competitive.

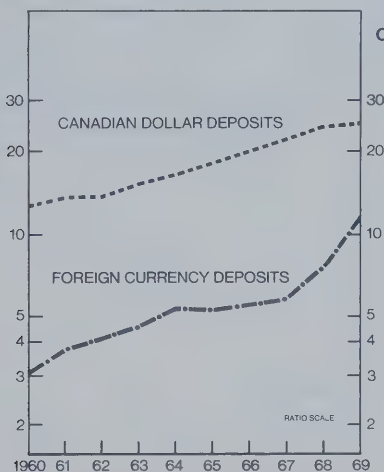
In company with many another corporation, we have had a real problem in finding and holding qualified people. When one takes a little longer look at our requirements, taking into account the economic expansion we foresee and the massive changes in systems and methods resulting from a change to on-line banking, this problem is not one we are going to solve overnight.

While we still hold to the principle of promotion within the Bank whenever possible, many highly specialized positions are opening up as a result of continued reassessment of our needs, and to fill many of these positions, we must look outside the Bank. Furthermore, the chances of an employee staying with us are considerably greater if employment with us represents at least his second job. As a result, we no longer confine our recruiting solely to recent graduates from high school and university, and training programs are being developed to accommodate the changed recruitment policies.

At an early stage of reorganization, we engaged in a thorough overhaul of our accounting function and a budgeting procedure which we call profit planning was introduced throughout the Bank. The flow of information to management was studied and a greatly improved system has evolved.

One of our most important innovations has been the setting up of a marketing department which systematically studies who our customers are, what their needs are, and how best to fill them. We have tried several approaches before arriving at the present one which emphasizes market research and detailed expert planning at head office with much of the resulting operational aspects allocated to divisional points for implementation.

During the past eighteen months we have brought our International Division into the new scheme of things. We have added a number of key personnel in this area to ensure that the service we provide is second to none and can support an expanded activity. Perhaps I should cite the doubling of our foreign currency assets last year as evidence of our achievements in this area. Of course, all Canadian banks have stepped up their activity in the Euro-Dollar market but we have expanded at a faster rate than the rest. We have not used this vehicle for balance sheet window dressing and I am glad to say the profit contribution last year from our foreign business was very substantially increased. We have provided a new service and gained worthwhile business in the export area where we have created a new Export Services Division. As you know, when the Federal Government's new Export Development Corporation came into being last fall, we were prepared to support the activities of the new corporation as soon as it was established and are optimistic for the future.



CHARTERED BANKS' CANADIAN DOLLAR AND FOREIGN CURRENCY DEPOSITS

($ Billions)

We are actively exploring avenues of further expansion abroad. I might say that we find the Pacific countries of particular interest because we see the possibility of continued swift expansion in that area of the world and of greatly increased trading opportunities for Canada. Last year we added

an office in Hong Kong and became a member of PICA — the Private Investment Company for Asia.

You have heard a good deal about the chequeless society in which money will simply be transferred between debtor and creditor automatically. In a sense we are moving in this direction with what may turn out to be an intermediate step. Within five years we will have nearly all of our Canadian branches linked on line to a central computer that will handle virtually all of the Bank's bookkeeping. I want to stress that our system will be fully on line. By that I mean our complete bookkeeping function will be automated. Some other banks are also talking about on line systems but from what we can see, they mean primarily the automation of customers' accounts. The change, therefore, at the B of M will be much more basic. Someone asked me the other day if we were "going for broke" as far as the computer is concerned. And the answer is "yes".

We have spent two years in preliminary planning and have now reached the stage where we are satisfied that from a technical and a cost standpoint, the system will work. We have set up a special school with IBM instructors to teach an additional 100 young men our concepts of working with computers. These will be only a part of the specialized work force required. We have engaged the services of AGT Data Systems Limited and acquired an interest in that company. IBM have worked very closely with us during the development stage and will supply the necessary hardware. With these widely-experienced companies completely satisfied with the feasability of our plan and committed to its implementation, we feel that we are on solid ground and have the expertise to implement it.

It will be a costly undertaking but we foresee no difficulty in handling the expenditures. It will be possible to capitalize a considerable portion of the cost and the effect on our annual profits during the implementation stage should not be great. Even before the system is fully operative, we expect to achieve some worthwhile economies in operation.

Time does not permit me to go into as much detail about some of our other plans. I have not touched on our program of constructing first-class divisional headquarter's buildings in each

of our seven domestic divisions, three of which have been announced. Nor have I mentioned development in the Asset Management area where we have set up a completly new system of control and where we are perfecting forecasting techniques so that we can take full advantage of changes in conditions in financial markets as they occur.

I hope I have been able to illustrate to you that we are not entering the 1970's blind. In the past few years we have been developing a strategic planning process designed to assist us in reaching decisions at the proper time on major priorities and ensuring that all of our key executives are aware of their responsibilities in reaching them.

What I have been saying today can perhaps be summed up in two sentences. One — the economic environment in which we will be operating during the 1970's will be one of strong growth but also one in which competitive conditions will be tough, not only among banks but between banks and other financial institutions. Two, the Bank of Montreal, which for so many years adopted a somewhat less than dynamic approach to the changing environment, is now better placed than at any time in the past several decades to take full advantage of the opportunities that lie ahead, and fully intends to do so.

Rates of Return on Equity After Taxes

Year	Banks	Average 40 Companies*
1963	8.29	11.12
64	7.49	11.93
65	9.93	12.08
66	8.02	11.05
67	8.92	9.85
68	9.12	9.81
69	10.63	

Source: C.B.A. Submission to Committee on Finance, Trade and Economic Affairs, September 1969.

*Industries covered are Beverage (5 co.'s), Tobacco (2 co.'s), Paper (10 co.'s), Steel (8 co.'s), Aluminium (2 co.'s), Dept. Stores (8 co.'s), Food Chains (5 co.'s). Companies selected on basis of availability of data on the Canadian Compustat Tape at the Financial Research Institute.

The Consumer Credit Market
(Shares Held by Various Institutions)

End of Period	Finance Co.'s	Chart-ered Banks	Life Insce. Co.'s	Credit Unions & Caisses Populaires	Retailers	Total
1960	34.3	21.5	8.6	10.8	25.0	100
61	31.8	24.4	8.4	10.6	24.8	100
62	32.3	25.5	7.9	11.1	23.2	100
63	32.0	27.4	7.3	11.7	21.7	100
64	32.0	29.9	6.6	11.6	19.9	100
65	31.3	32.5	5.9	11.7	18.6	100
66	31.1	32.7	6.0	12.4	17.8	100
1967(1)	31.1	33.8	6.1	12.4	16.6	100
(2)	30.5	35.2	5.9	12.6	15.9	100
(3)	29.7	35.8	5.9	12.8	15.8	100
(4)	28.8	35.8	5.8	13.1	16.6	100
1968(1)	28.7	36.7	6.0	13.4	15.2	100
(2)	28.9	37.2	5.9	13.5	14.5	100
(3)	28.6	37.7	5.9	13.3	14.5	100
(4)	27.5	38.5	5.8	13.0	15.2	100
1969(1)	27.4	40.2	5.8	12.7	13.9	100
(2)	27.5	40.9	5.7	12.6	13.3	100
(3)	28.4	39.6	5.9	12.7	13.4	100

Source: Bank of Canada, D.B.S.

Chartered Banks' Canadian Dollar and Foreign Currency Deposits
($ Millions)

End Oct.	Total Canadian Dollar Deposits	Foreign Deposits
1960	12,778	3,052
61	13,604	3,715
62	13,968	4,197
63	15,208	4,563
64	16,083	5,460
65	18,237	5,345
66	19,846	5,510
67	22,415	5,969
68	25,173	7,706
69	26,444	11,612

Source: Canada Gazette

The General Public's Holdings of Certain Liquid Assets
($ Millions)

At End of:	(1) Chartered Banks	(2) Trust & Mortgage Co.'s	(3) Quebec Savings Banks	(4) Credit Unions	(5) Commercial Paper	Total	Chartered Banks Share of Total
1960	12,411	1,857	289	1,208	656	16,421	75.6%
61	13,598	2,254	310	1,382	692	18,236	74.6
62	14,545	2,775	325	1,521	847	20,013	72.7
63	15,665	3,364	347	1,730	960	22,066	71.0
64	16,757	4,102	376	1,987	1,132	24,354	68.8
65	18,497	4,858	402	2,275	852	26,884	68.8
66	20,026	5,392	421	2,623	1,048	29,510	67.9
1967(1)	20,297	5,588	432	2,809	1,290	30,416	66.7
(2)	21,077	5,685	450	2,915	1,215	31,342	67.2
(3)	22,392	5,842	461	3,019	1,162	32,876	68.1
(4)	23,095	5,953	456	3,039	1,087	33,630	68.7
1968(1)	22,744	6,048	469	3,162	1,401	33,824	67.2
(2)	24,214	6,202	486	3,259	1,489	35,650	67.9
(3)	25,822	6,497	496	3,298	1,480	37,593	68.7
(4)	26,640	6,659	519	3,357	1,514	38,689	68.9
1969(1)	27,129	6,889	526	3,377	1,642	39,563	68.6
(2)	27,597	7,130	538	3,485	1,595	40,345	68.4
(3)	27,875	7,331	542	3,559	1,906	41,213	67.6

Source: Bank of Canada, D.B.S.
(1) Includes total Canadian Dollar Deposits ex. Gov't of Canada, Foreign Currency "swapped" deposits and Bankers' Acceptances.
(2) Demand, savings and term deposits.
(3) Total deposits ex. Gov't of Canada.
(4) Deposits and Share Capital.
(5) Finance Co. and other short-term paper in Canadian Dollars.

Bank of Montreal

Bank of Montreal

ANNUAL GENERAL MEETING

Notice is hereby given that the ANNUAL GENERAL MEETING of the shareholders will be held at the head office of the Bank, 129 St. James Street West, Montreal, on MONDAY, DECEMBER 14th next.

The chair will be taken at 11 o'clock A.M.

By order of the Board

C. W. HARRIS,
Vice-President
and Secretary.

Montreal, October 20th, 1970.

Bank of Montreal

RECORD OF ATTENDANCE OF DIRECTORS

Twelve months ended September 30th, 1970

In addition to 32 Board meetings and 21 Executive Committee meetings held in Montreal, committee meetings of Directors with Bank officers were held in Halifax (9), Quebec (11), Toronto (19), Winnipeg (10), Regina (1), Calgary (7), Edmonton (2), Camrose (1), Lethbridge (1), Vancouver (12) and London, England (8).

Director	Residence	Board Meetings Attended	Executive Committee Meetings Attended	Committee Meetings Attended
*G. Arnold Hart	Montreal	22	14	4
*J. Leonard Walker	Montreal	22	16	8
Sir Peter Allen	London, England	4		7
*W. A. Arbuckle	Montreal	26	16	3
W. M. Vacy Ash	Toronto	7		15
Paul Bienvenu	Montreal	27		
S. Robert Blair (*Appointed Feb. 3rd, 1970*)	Calgary	3		5
*George W. Bourke	Montreal	26	15	
Ralph B. Brenan	Saint John, N.B.	11		6
Charles R. Bronfman	Montreal	12		
The Hon. Eric Cook, Q.C.	St. John's, Nfld.	23		9
H. Roy Crabtree	Montreal	24		
N. R. Crump	Montreal	19		
F. Ryland Daniels (*Resigned Dec. 8th, 1969*)	Montreal	5		
*Nathanael V. Davis	Montreal	16	12	
John H. Devlin	Toronto	6		7
*Harold S. Foley	Vancouver	9	2	9
*The Hon. Leslie M. Frost, P.C., C.C., Q.C.	Lindsay	12	16	19
Donald S. Harvie	Calgary	5		11
Leonard Hynes	Montreal	20		
Richard M. Ivey, Q.C.	London, Ont.	11		9
*Arthur C. Jensen	Montreal	25	20	
J. H. Mowbray Jones	Montreal	27		7
David Kinnear	Toronto	13		14
W. S. Kirkpatrick (*Resigned Dec. 8th, 1969*)	Montreal	4		
*A. Searle Leach	Winnipeg	3	3	13
Bernard M. Lechartier	Montreal	22		
*Roger Létourneau, Q.C.	Quebec, P.Q.	16	15	11
Arthur R. Lundrigan	Corner Brook, Nfld.	12		9
Donald A. McIntosh, Q.C.	Toronto	12		14
*D. R. McMaster, Q.C.	Montreal	27	20	1
Donald J. McParland (*Died Nov. 11th, 1969*)	Montreal	2		
H. C. F. Mockridge, Q.C.	Toronto	12		5
*The Hon. Hartland deM. Molson, O.B.E.	Montreal	21	14	
J. Bartlett Morgan	Montreal	18		
*R. D. Mulholland	Montreal	26	19	1
William D. Mulholland (*Appointed Feb. 3rd, 1970*)	Montreal	8		
Alan M. Murray (*Elected Dec. 8th, 1969*)	Vancouver	16		2
David L. Nicolson (*Appointed July 7th, 1970*)	London, England	—		
The Hon. Victor deB. Oland	Halifax	5		9
H. J. S. Pearson	Edmonton	7		11
Jack Pembroke, C.B.E. (*Resigned Dec. 8th, 1969*)	Montreal	5		
John G. Prentice	Vancouver	5		3
*Budd H. Rieger	Toronto	14	6	8
Forrest Rogers	Vancouver	4		9
*Lucien G. Rolland	Montreal	26	11	1
V. W. Scully, C.M.G.	Toronto	11		11
George H. Sellers	Winnipeg	9		10
G. H. Sheppard	Toronto	9		16
The Hon. James Sinclair, P.C.	Vancouver	14		9
*H. Greville Smith, C.B.E. (*Resigned Dec. 8th, 1969*)	Montreal	5	2	1
William M. Sobey (*Elected Dec. 8th, 1969*)	Stellarton	14		7
George C. Solomon	Regina	7		7
Noé A. Timmins, Jr.	Nassau	6		
The Hon. Madame Georges P. Vanier, P.C., C.C.	Montreal	15		
Marcel Vincent	Montreal	27		
Lorne C. Webster (*Elected Dec. 8th, 1969*)	Montreal	20		
Henry S. Wingate	New York	5		

*Member of the Executive Committee of the Board.

Submitted in accordance with section 26 of the Bank Act

HEAD OFFICE
MONTREAL, P.Q.
October 21, 1970.

C. W. HARRIS
Vice-President and Secretary

Bank of Montreal
The First Canadian Bank
Head Office, 129 St. James St., West, Montreal 126, P.Q.

G. Arnold Hart
Chairman and Chief Executive Officer

October 21st, 1970

To the Shareholders,
Bank of Montreal.

The annual general meeting of the shareholders will be held on Monday, the fourteenth day of December next. A copy of the formal notice is appended.

We hope, of course, that many of you will be present at the meeting in person. If you cannot attend, completion and return of the enclosed appointment of proxy to our transfer agents, The Royal Trust Company, Montreal, in the envelope provided, will enable your vote to be recorded. Even if you expect to attend you may complete and return the proxy form as this will facilitate voting procedure. Please be assured that this expression of confidence will be greatly appreciated.

The Bank Act contains provisions which, under certain circumstances, restrict the exercise of voting rights. For those of you who hold more than 2,500 shares of the capital stock of the Bank, we are attaching a memorandum concerning the restrictions applicable. We specifically draw to your attention these requirements of the law.

As the relatively short time between the end of our financial year and the date of the annual general meeting as provided for in our by-laws necessitates the mailing of this request for appointment of proxy before an annual statement is available, we are unable at this time to report precisely on the year's operations. A copy of the annual statement will be mailed to you about two weeks before the meeting and the complete annual report as soon as possible thereafter. Quarterly reports have indicated to you that in our 153rd year earnings have increased and there has been a substantial growth in our business. Preliminary figures indicate that these trends are continuing through the final quarter.

The by-laws of the Bank require that the proxies be in our hands seven clear days before the meeting. Your prompt attention will, therefore, be appreciated.

G. Arnold Hart

Bank of Montreal

Head Office Montreal

Minutes of the 153rd Annual General Meeting of the Shareholders

Held on Monday, 14th December, 1970

(Distributed to Shareholders as required by section 60, subsection 5, of the Bank Act)

MINUTES OF THE ONE HUNDRED AND FIFTY-THIRD ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE BANK OF MONTREAL, HELD ON MONDAY, 14th DECEMBER, 1970

Mr. G. Arnold Hart, Chairman of the Board of Directors, took the Chair at 11 a.m.

It was moved by Mr. J. Bartlett Morgan, seconded by Mr. Ralph B. Brenan, "that Mr. J. R. Sears and Mr. H. W. Shields be appointed to act as Scrutineers, and that Mr. C. W. Harris be the Secretary of this Meeting." This was carried unanimously.

The Statement of the Affairs of the Bank for the financial year ended October 31st, 1970 having been presented to the Meeting, as required by the Bank Act, the Secretary read the Report of the Directors to the Shareholders.

DIRECTORS' REPORT

The directors take pleasure in submitting to the shareholders the 153rd Annual Report on the result of the Bank's operations for the year ended October 31st, 1970.

STATEMENT OF REVENUE, EXPENSES AND UNDIVIDED PROFITS

Total revenue	$702,130,963
Total expenses	608,806,054
Balance of revenue (Net operating earnings)	93,324,909
Appropriation for losses (to provide for contingencies)	17,950,000
Balance of profits before income taxes	75,374,909
Provision for income taxes relating thereto	39,479,068
Balance of profits for the year	35,895,841
Dividends at 75¢ per share	25,628,587

McNeil, to be the proxy of the Bank of Montreal for and in its name to attend, act and vote in such manner as the said proxy may deem proper at any and all shareholders' meetings of Bankmont Realty Company Limited and of any other corporation controlled by the Bank.'

"That 'We, the shareholders of the Bank of Montreal, do hereby appoint Mr. H. M. Stuart, Jr. or, failing him, Mr. L. H. Boynton, to act as proxy for this Bank, to act and vote at any and all meetings of shareholders of Bank of Montreal (California), and at any and all adjournments thereof and that the Chairman, or the President, or an Executive Vice-President, or a Vice-President located at Head Office, together with the Secretary or an Assistant Secretary of the Bank be and they are hereby authorized from time to time to execute such proxy and affix the seal of the Bank thereon, and that this resolution remain in effect until the next Annual General Meeting of the Bank of Montreal.', and

"That a ballot be taken upon these motions at the same time as the ballot for the election of directors."

This was carried unanimously.

It was moved by Mr. Donald S. Harvie, seconded by Mr. Bernard M. Lechartier,

"That the thanks of the Meeting are hereby tendered to the Executive Vice-Presidents, the Senior Vice-Presidents, the Vice-Presidents and all other officers and employees for their services during the past year."

This was carried unanimously.

At the request of the Chairman, the Secretary then read to the Meeting a list of proposed directors, as follows:—

SIR PETER ALLEN
W. A. ARBUCKLE
W. M. VACY ASH
PAUL BIENVENU
S. ROBERT BLAIR
RALPH B. BRENAN
CHARLES R. BRONFMAN
SIDNEY L. BUCKWOLD
THE HON. ERIC COOK, Q.C.
H. ROY CRABTREE
N. R. CRUMP
NATHANAEL V. DAVIS
JOHN H. DEVLIN
HAROLD S. FOLEY
G. ARNOLD HART
DONALD S. HARVIE
ANTHONY R. HICKS
LEONARD HYNES
R. M. IVEY, Q.C.
J. H. MOWBRAY JONES
DAVID KINNEAR
A. SEARLE LEACH
BERNARD M. LECHARTIER
ROGER LÉTOURNEAU, Q.C.
ARTHUR R. LUNDRIGAN
DONALD A. McINTOSH, Q.C.
D. R. McMASTER, Q.C.
H. C. F. MOCKRIDGE, Q.C.
THE HON. HARTLAND deM. MOLSON, O.B.E.
J. BARTLETT MORGAN
R. D. MULHOLLAND
WILLIAM D. MULHOLLAND
ALAN M. MURRAY
ROBERT D. MUSGJERD
DAVID L. NICOLSON
THE HON. VICTOR deB. OLAND

Undivided Profits	
Amount carried forward	10,267,254
Undivided profits at beginning of year	361,129
	10,628,383
Transferred to rest account	10,500,000
Undivided profits at end of year	$ 128,383

(Signed) J. L. WALKER
President.

(Signed) F. H. McNEIL
Executive Vice-President
and General Manager.

During the year, Mr. William D. Mulholland of Montreal, Mr. S. Robert Blair of Calgary and Mr. David L. Nicolson of London, England were appointed to the Board.

In the financial year, 34 offices were opened in Canada and one in San Diego, California and six were closed; Representative's Offices were opened in Hong Kong, Melbourne, Australia, Buenos Aires and Amsterdam. As at October 31st, 1970 there were 1,090 offices of the Bank in operation.

Within the year we participated equally with four foreign banks in the Australian International Finance Corporation Limited and have formed a wholly-owned subsidiary company, Hochelaga Holdings N.V. in Amsterdam. Also, the Bank of Montreal (Bahamas & Caribbean) Limited and the Bank of Montreal Jamaica Limited commenced operations.

To Accumulated Appropriations for Losses as shown by the relative statement, there has been added an appropriation of $17,950,000 from the year's operations as indicated above, the related income tax on which is included in the provision for income taxes of $11,450,402, making total provision for income taxes $50,929,470. Out of Accumulated Appropriations for Losses amounts not otherwise provided have been drawn down for the diminution in the value of loans and investments which, in the opinion of management, is required after a careful evaluation of the assets of the Bank. The sum of $10,500,000 has been transferred from Undivided Profits to Rest Account.

The directors acknowledge with deep appreciation the loyalty of all personnel of the Bank and express their thanks for the capable manner in which they have fulfilled their responsibilities during the year.

(Signed) G. ARNOLD HART
Chairman.

Bank of Montreal,
December 14th, 1970.

It was moved by the Chairman, seconded by The Hon. Hartland deM. Molson, O.B.E.,

"That the Report of the Directors, as read, the Statement of Assets and Liabilities as at October 31st, the Statement of Revenue, Expenses and Undivided Profits and the Statement of Accumulated Appropriations for Losses, both for the financial year ended in October, be approved and adopted."

This was carried unanimously.

It was moved by Mr. H. C. F. Mockridge, Q.C., seconded by The Hon. Eric Cook, Q.C.,

"That clause (b) of By-law No. IV of the By-laws of the Bank enacted by the shareholders be amended by striking therefrom the figure '53' and substituting therefor the figure '52', and

"That, pursuant to the Bank Act, a ballot be taken forthwith."

The ballot was then proceeded with and, following the Scrutineers' report, the Chairman declared that the amendment to Shareholders' By-law No. IV was duly enacted.

It was moved by Mr. J. F. Close, seconded by Mr. T. C. Camp,

"That By-law No. VIII of the By-laws enacted by the shareholders of the Bank be and it is hereby amended by striking therefrom the words 'Two hundred and twenty-five thousand dollars' and substituting therefor the words 'Two hundred and seventy-five thousand dollars', and

"That a ballot upon this motion be taken at the same time as the ballot for the election of directors."

This was carried unanimously.

It was moved by Mr. H. Roy Crabtree, seconded by Mr. Forrest Rogers,

"That Messrs. Campbell W. Leach, C.A., and G. Meredith Smith, C.A., be appointed auditors of the Bank for the ensuing year, and that their remuneration be $100,000, to be divided as the directors may think best, and that a ballot for the auditors be taken at the same time as the ballot for directors is taken."

This was carried unanimously.

It was moved by Mr. D. R. McMaster, Q.C., seconded by Mr. Nathanael V. Davis,

"That 'We, the shareholders of the Bank of Montreal, pursuant to section 17, subsection 5, of the Bank Act, do hereby appoint Mr. G. Arnold Hart, or failing him, Mr. J. Leonard Walker, or failing him, Mr. F. H.

H. J. S. PEARSON
JOHN G. PRENTICE
BUDD H. RIEGER
FORREST ROGERS
LUCIEN G. ROLLAND
V. W. SCULLY, C.M.G.
GEORGE H. SELLERS
G. H. SHEPPARD
THE HON. JAMES SINCLAIR, P.C.
WILLIAM M. SOBEY
GEORGE C. SOLOMON
NOÉ A. TIMMINS, JR.
MARCEL VINCENT
J. LEONARD WALKER
LORNE C. WEBSTER
HENRY S. WINGATE

Mr. L. G. McDougall, Q.C. then nominated the respective persons whose names had been read by the Secretary for election as directors of the Bank for the ensuing year.

The ballot for the amendment to By-law No. VIII, for the appointment of auditors, for the appointment of proxies of corporations controlled by the Bank, and for the election of directors, was then proceeded with.

The Scrutineers appointed for the purpose submitted their reports following which the Chairman declared that the amendment to By-law No. VIII had been duly enacted; Messrs. Leach and Smith were duly appointed auditors; the motions to appoint proxies for the meetings of corporations controlled by the Bank had been duly carried; and the persons named in the list read by the Secretary, and duly nominated, had been elected directors.

The Statement of Assets and Liabilities of the Bank, the Statement of Revenue, Expenses and Undivided Profits, the Statement of Accumulated Appropriations for Losses, and the Statements of Assets and Liabilities of Controlled Corporations, together with the Auditors' Report, all duly signed, are appended to these Minutes.

C. W. HARRIS,
Secretary.

G. ARNOLD HART,
Chairman.

Bank of Montreal

The First Canadian Bank

Head Office
129 St. James Street West
Montreal 126, P.Q.

Chairman and Chief Executive Officer
G. Arnold Hart

President
J. Leonard Walker

Executive Vice-President
and General Manager
Fred H. McNeil

More than 1050 Offices in Canada, the United States, United Kingdom and Continental Europe, Mexico, Japan and Hong Kong • Australian Affiliate: Australian International Finance Corporation, Melbourne • Bahamas and Caribbean Subsidiary: Bank of Montreal (Bahamas & Caribbean) Limited • Banking correspondents throughout the world.

Assets $8,313,000,000

Bank of Montreal

Semi-Annual Report

November 1st, 1969 - April 30th, 1970

File

To our Shareholders:

In the second quarter of the current fiscal year, Balance of Revenue, while higher than in the corresponding quarter of last year, was down somewhat from the immediately previous three months' period. The reduction was virtually all accounted for by reduced loan revenue, with average loans outstanding at a moderately lower level than in the first quarter.

In the half-year's comparison, cost of deposit interest continues to be the predominant factor accounting for increases in operating expense, and it is noteworthy in this context that interest paid has increased at a more rapid rate than interest received. While, in the same comparison, personnel costs have increased by 11.9%, approximately half of this increase is accounted for by additional employees, in keeping with our recruiting requirements.

While Balance of Revenue per share at $1.55 for the first six months of the current year was 27.6% over the corresponding period a year ago, these interim results are not necessarily indicative of operations for the balance of the year. As an example, recent elimination of exchange on domestic cheques is expected to involve a reduction of some $3½ million in gross revenue during the next six months.

As mentioned in our previous quarterly reports, we are making no provision for transfers to Accumulated Appropriations for Losses in our interim statements as this can be properly determined only on the basis of the full year's experience.

The comparative statistics taken from the Bank's month-end statement of Assets and Liabilities reflect continued growth in our business.

G. Arnold Hart

Chairman and Chief Executive Officer

PRINTED IN CANADA

Statement of Revenue and Expenses *(unaudited)*

For The Six Months Ended April 30th (thousands of dollars)

	1970	Per Share(2)	1969	Per Share(3)	% Increase
Revenue					
Income from loans	$275,566		$182,808		50.7
Income from securities	44,979		40,590		10.8
Other operating revenue	32,690		28,582		14.4
Total revenue	353,235		251,980		40.2
Expenses					
Interest on deposits	200,873		123,625		62.5
Salaries, pension contributions and other staff benefits	59,911		53,554		11.9
Property expenses, including depreciation	16,690		14,047		18.8
Other operating expenses, including provision for losses on loans based on five-year average loss experience	22,841		19,279		18.5
Total expenses	300,315		210,505		42.7
Balance of revenue	52,920	$1.55	41,475	$1.29	27.6
Appropriation for losses(1)	—		—		
Balance of profits before income taxes	52,920	1.55	41,475	1.29	27.6
Provision for income taxes relating thereto	27,944	.82	21,931	.68	27.4
Balance of profits for the period	24,976	.73	19,544	.61	27.8
Dividends declared for the period	12,302	.36	10,246	.32	20.1

Comparative Statistics

As At April 30th (millions of dollars)

	1970	1969	% Increase
Total Assets	$ 8,313	$ 7,366	12.9
Loans	4,863	4,463	9.0
Deposits	7,601	6,795	11.9

(1) No provision for transfers to accumulated appropriations for losses. See message to shareholders.
(2) Based upon 34,171,875 shares.
(3) Based upon 32,266,771 shares (weighted average of issued shares).

Bank of Montreal

Annual Report

153rd Annual General Meeting
Head Office Montreal
December 14th, 1970

The First Canadian Bank

Cover

Miss Madeleine Fortier
personal loans officer, Westmount Branch.
One of the growing numbers of women
who are assuming managerial positions
in the bank.

Legal deposit, 4th quarter (1970)
Bibliothèque nationale du Québec
(*On peut obtenir sur demande un exemplaire français*)

Contents

Financial Highlights

	1970	1969
Total assets	**$8,730,050,648**	$8,152,864,188
Securities	**1,573,195,713**	1,321,620,021
Loans	**4,980,582,539**	4,767,813,462
Deposits	**8,022,958,335**	7,506,315,916
Balance of revenue for the year	**93,324,909**	81,133,232
Balance of revenue per share(1)	**$2.73**	$2.44
Balance of profits for the year	**35,895,841**	34,262,630
Balance of profits for the year per share(1)	**$1.05**	$1.03
Dividends	**25,628,587**	23,183,991
Dividends per share	**75¢**	70¢
Provision for income taxes – total	**50,929,470**	41,548,602
Provision for income taxes – total per share(1)	**$1.49**	$1.25
Shareholders' equity	**302,972,133**	291,575,309
Number of shares issued	**34,171,875**	34,171,875

(1) Based on weighted average of issued shares

Address of the Chairman and Chief Executive Officer

Since our meeting a year ago, the Board has appointed three additional directors, namely, Mr. William D. Mulholland, President and Chief Executive Officer, British Newfoundland Corporation Limited, Montreal; Mr. S. Robert Blair, President and Chief Executive Officer, The Alberta Gas Trunk Line Company Limited, Calgary; and Mr. David L. Nicolson, Chairman of BTR Leyland Industries Ltd. of London, England. These gentlemen bring to our meetings a wealth of experience and we benefit from their counsel.

In keeping with the policy of your directors with respect to retirement age, the names of Mr. Arthur C. Jensen, Mr. George W. Bourke, The Hon. Leslie M. Frost, P.C., C.C., Q.C., and The Hon. Madame Georges P. Vanier, P.C., C.C., will not be submitted for re-election to the Board today.

Mr. Bourke, who has been prominent in the business life of the country for many years, was appointed to the Board in June 1948 and a member of the Executive Committee in 1953. The Hon. Leslie Frost was appointed to the Board in February 1962, after a distinguished career in the service of his native province and was elected a Vice-President in 1964 and a member of the Executive Committee in 1966. Madame Vanier was elected to the Board in December 1967 and was our first lady director. I perhaps may be permitted to make a special reference to Mr. Jensen who has completed over 50 years of service in the Bank. He was appointed General Manager

in 1952, elected a director and Vice-President in December 1954, Executive Vice-President in 1957 and Chairman of the Board and Chairman of the Executive Committee in 1959, from which offices he retired in 1964. Through his wide banking experience and his dedication to the affairs of the Bank, his contribution to our progress has been notable. We shall miss the services of Madame Vanier, Mr. Jensen, Mr. Bourke and Mr. Frost, each of whom in his or her own way has played a significant part in the progress of the Bank, and on your behalf I express our warm appreciation and wish them well for the future.

You will be asked today to elect three new directors and I shall refer to each of these gentlemen briefly: they are, Mr. Anthony R. Hicks, President and Chief Operating Officer, Sun Life Assurance Company of Canada, Montreal; Mr. Sidney L. Buckwold, Vice-President, Buckwold's Ltd., Saskatoon; and Mr. Robert D. Musgjerd, President, International Harvester Company of Canada, Limited of Hamilton. We shall welcome these gentlemen to our deliberations.

Unemployment rises . . .

At this time last year the economic environment was beginning to show the effects of many months of struggle between the forces of inflation and the forces of official restraint, but there were still very few signs that inflation did not continue to have the upper hand. Today, while inflation as manifested in sharply rising costs is still a matter of real concern, public attention has shifted towards unemployment, now generally considered to be our most pressing economic problem. And a serious problem it is, especially in those areas of the country where the effects of the cyclical adjustment process we are now going through are superimposed on above-average unemployment of much longer standing.

. . . while inflation persists

But recognition of the seriousness of a problem is only the first step towards a solution, the search for which in present circumstances is immensely complicated by the fact that inflation is still very much with us. While the consumer price index has been relatively stable for the past six months, this cannot by any means be taken as an indication that the battle against inflation has been won, nor can the fact, often cited, that our recent domestic price performance has been considerably better than that of most of our international competitors. On the cost side our experience continues to be far from satisfactory and, until costs are brought under better control, there can be no grounds whatsoever for confidence that the recent improvement in the behaviour of prices will be anything but temporary.

Economic expansion required

It is with this very present danger as a background that one must look at the various measures that are now being taken or suggested to stimulate the economy as a whole and to deal with the acute unemployment problems that exist in particular areas of the country.

That action with respect to local situations is urgently needed is beyond question and there is no doubt that direct outlays by governments on construction projects can serve a useful short-term function in this connection, while at the same time putting in place needed social capital. However, it is quite unrealistic to expect that the direct and indirect employment effects of such programmes will make much of a dent in the large numbers of unemployed. In an economy such as ours the creation of productive employment opportunities in the required numbers can only take place as a result of expansion of current output in the private sector together with private investment in enlarged and modernized facilities.

The problem, of course, is to bring about the circumstances in which such an expansion will take place, as there are clearly many inhibiting factors at the present time. Apart from the rather abstract but nevertheless very significant question of climate, as it relates both to investment and to the attitudes of individuals to the total environment in which they work and live, the foremost impediments to renewed growth are the depressed state of profits and uncertainties about the prospects for earnings in the relatively near term, as well as uncertainties about taxes.

One of the most unsettling aspects of the past year's discussion of the White Paper on Tax Reform was the strong impression it created that officials in Ottawa are con-

vinced that governments cannot perform their functions without taking an increasing share of the national output in taxes. This impression was not dispelled by a recent speech by the Minister of Finance in which he strongly implied that a reduction in taxes to promote economic growth could not be contemplated if it meant that existing government programmes would have to be curtailed.

Is it not fair to ask how changing needs and priorities can ever be accommodated if existing programmes cannot be considered candidates for curtailment? And is it not especially important in present circumstances to have a hard look at these programmes to see whether resources cannot be more effectively used to assist in the creation of employment opportunities in those regions of the country where slack economic growth is the source of much discontent and social friction?

Never a role for terrorism

I would not wish to imply that the increasing resort to violence as a means of achieving social or political ends which we in Canada, in common with other advanced industrialized countries, have been experiencing in recent years, has its origins primarily in economic frustration. It is all too easy, in the aftermath of an outburst of criminal violence in pursuit of treasonable ends, to accept unthinkingly the unsupportable contention that political dissent expressed through extra-democratic means will only take place in an environment of social unrest based on economic deprivation or inequality. The historical record of revolutionary movements, whether of the left or of the right, simply does not bear this out.

A more insidious argument, advanced equally dangerously by unthinking people of goodwill and by self-seeking people as a means of promoting their political objectives, is that an end to confrontation by terrorism can only be brought about by the removal of the breeding ground of social and economic unrest. I call this a dangerous argument because, to evoke the spectre of violence as a persuader in the movement for reforms can only serve to give violence a degree of legitimacy in the political process which it simply does not deserve. Just as war has been called an extension of diplomacy by other means, so terrorism, according to this thesis, could be considered an extension of politics. I am convinced that, in a democratic society, no more subversive doctrine can be imagined.

To say this is not by any means to deny the need for measures to improve the economic and social well-being of vast numbers of our people wherever they reside in Canada. Gross inequalities of economic opportunity are humanly degrading, socially debilitating, politically corrupting and nationally disruptive. But let us approach the problem on rational grounds, within the framework of the institutions that have been built up over the centuries, without assigning violence, or the threat of violence, any role in the process.

As for the terrorists in this province, however small in number they may be, the challenge to the properly constituted authority which their activities represented had to be brought to an end. As a people, we should be grateful that the governments concerned were prepared to take resolute action when they did to restore law and order. An overwhelming majority of Canadians supported that action, however distasteful it was, and the subsequent argument that has developed, with the benefit of hindsight, over whether such strong measures were necessary or whether the action taken was the most effective, really has nothing to do with the incontrovertible fact that when the time came for a test of the mettle of our leadership in Ottawa and Quebec it was not found wanting.

Short-term measures . . .

All considerations of our recent traumatic experience apart, it is a fact that the economic loss being suffered from present under-utilization of resources and massive unemployment in some parts of the country is having serious consequences in human and social terms. There is therefore an urgent need not only to get the economy as a whole moving onto a non-inflationary growth path but also to create immediate employment opportunities in areas of greatest stress. Serious unemployment exists in many areas of Canada but perhaps nowhere is the problem more pressing, or the potential rewards more promising in national terms, than in this province which

The Bank of Montreal's Youth Project was launched in September 1970. Thirty-four young people who have had few chances in life are being given an opportunity to learn business skills which will equip them for employment. They are paid a salary while they learn and the results, after only a few months, have been encouraging.

has such a full measure of unrealized economic capability.

The economic difficulties faced by Quebec are partly of historical origin and partly of our own making in our own time and I believe that an overwhelming majority of Quebecers, irrespective of cultural background, are willing to admit this and to make every effort to do something about it. However, solutions to structural problems of a longer-term nature take time and the fact is that the immediate difficulties have now become so acute as a result of the conjunction of several rapidly moving trends in education, urbanization, cultural awareness and so on that measures to deal with the short-term problems adequately may be beyond the capacity of the province to handle alone.

. . . and long-term goals
However, in attempting to provide short-term solutions to meet immediate needs, whether in Quebec or elsewhere in Canada, it is important that great care be taken not to prejudice the achievement of longer-term goals. One of the dangers to be guarded against is the initiation of programmes which, while designed to produce quick results, might tend to reinforce or perpetuate the existing inadequacies of industrial structure that have given rise to inequalities of economic opportunity and standard of living throughout the country. This danger exists at any time in the promotion of economic development of slow-growth regions but even greater care has to be taken at times like the present when social and political pressures for action are unusually strong. Whatever the immediate objectives may be, the initiation of uneconomic activities that can be maintained in the longer run only by artificial incentives or by the protection of the producers in one province against competition from more efficient producers elsewhere in Canada, is clearly not the answer if what we want is not mere jobs but a dynamic economy with rising standards of living for all.

Profit squeeze . . .
Whatever measures are taken to deal with unemployment problems on a regional basis it seems quite clear that they will be of limited effectiveness if conditions in the economy as a whole are not conducive to growth. I thus come full circle and refer again to a matter I cited earlier as one of the principal impediments to renewed expansion, that is, the current unsatisfactory state of profits.

. . . an impediment to growth
The reasons for the continuing squeeze on profits at the present time are well known. They are the result of the combined effects of slow growth in aggregate demand and of the inability, because of market factors and the price restraint programme under the aegis of the Prices and Incomes Commission, to recover increases in costs generated in large part by excessive wage demands. When the price restraint programme was suggested to the business sector many of us had serious misgivings about the wisdom of interference with the price mechanism. Nevertheless, in the face of an extraordinarily intractable inflationary problem, the business community agreed to go along with an exercise which was not much to their liking but the alternatives to which seemed even more unpalatable. However, business participation in the programme in the first instance was on the understanding that it was to be a genuinely co-operative effort in which government and labour, as well as business, would all play their full part.

Business has certainly done its share, but it has clearly not been a co-operative effort, given the inability of organized labour to participate — I use the word inability to put the best possible complexion on their attitude. And even on the government side, wage awards in the public sector, as well as expenditure patterns, would seem to suggest that little more than lip service was being paid to their part of the deal. In all the circumstances it would really have been too much to expect business to continue its commitment.

And even if businessmen had been unwise enough to agree to an extension of this strange one-sided commitment to a system of voluntary taxation I wonder whether most of them would have been able to do so in any meaningful way, since profits in many industries have now been pared to the bone. In any event, I doubt that even the gesture would have served a valid social purpose since what is now required to create the employment opportunities that are so badly needed is an increase in production.

But an increase in output on a scale requiring substantial commitments of capital funds is unlikely to come about without an improvement in profit prospects. A greater degree of flexibility than has been possible during the past year is therefore required to permit an upward adjustment in some prices from their recent artificially depressed levels. However, the productivity improvements and reductions in unit costs that can be expected to result from a reasonable increase in investment and an expansion of output would tend to dampen the upward movement of prices as well as to offset the clearly inflationary consequences of recent extravagant wage settlements. This process could be aided by a reduction in taxes which, quite apart from the fact that it should serve to temper demands for higher nominal wages and salaries, would provide the impetus for an increase in demand for output as well as giving an initial and continuing lift to business prospects.

Tax reduction preferred . . .

In fact there has been for some time a growing body of opinion — quite evidently not yet shared by the government in Ottawa — that the most effective, and least risky, route to take towards expansion of the economy in present circumstances is tax reduction rather than reliance on increased expenditures by government. Many arguments have been advanced in favour of this course. My own reasons for preferring it are based partly on the short-term factors I mentioned earlier but more importantly on longer-term considerations. In the short term there are risks, of course, since any tax cut on a large enough scale to be effective would initially have a substantially depressing effect on government revenues, thus causing a more rapid swing into budgetary deficit and the difficult problems for monetary policy that are associated with such a swing.

. . . not massive government expenditures

However, it is surely not unreasonable to expect that before too long the increased activity would generate additional tax revenues while at the same time obviating the need for those otherwise unavoidable increases in expenditure that are associated with high and rising levels of unemployment. And a budgetary deficit of some size no doubt has to be accepted if you adopt the view that a degree of general stimulation of the economy by fiscal and monetary means is appropriate in present circumstances. But how much better it would be if this came about primarily as a result of a reduction in tax burdens rather than as a result of further increases in government expenditures that would perpetuate and intensify the already excessive degree of government involvement in the economy.

This consideration becomes even more important as we look down the road towards the implementation of comprehensive income security programmes of the sort envisaged in the white paper tabled in Ottawa a couple of weeks ago. Time does not permit comment in detail on this subject today. I merely wish to say that, while there is undoubtedly room for argument about the scale of allowances and about cut-off levels, the proposed measures in my view represent a move in the right direction, towards a selective approach to income support based on a criterion of need, and this is a welcome departure from the doctrine of universality to which the federal government has heretofore been so strongly attached.

Nevertheless, even if the more rational selective approach is adopted more widely as time goes by it is clear that the transfer of income to those in need will constitute an increasing claim on the productive resources of the economy. No avenue should therefore be neglected to promote the goals of increasing productivity and strong economic growth without inflation.

I am convinced that a general reduction of tax rates in present circumstances would serve these ends better than any alternative measures available. We can only hope that, having failed to move in that direction in the recent budget, the federal government will not now embark on the alternative course of rapidly mounting expenditures, which could only lead to a decline in confidence and a resurgence of inflation, thus seriously inhibiting prospects for balanced growth of the economy in the years ahead.

Address of the President

It seems almost traditional for corporate officers, when addressing annual meetings, to begin with comments on the financial aspects of the enterprise and close with words of thanks to employees for their services. This year, I should like to break with tradition in order to emphasize my conviction that people must come first. This is true, I believe, of society as a whole, and of business generally. It is especially true of the Bank of Montreal.

In expressing on behalf of all the Bank's executive officers sincerest thanks to the men and women who provide the thrust behind our Bank's progress, I have in mind the fact that the last five years have been difficult and trying ones for B of M personnel as they have faced up to the challenges posed by our far-reaching reorganization. Nor can they let up now. Important changes which will result in further long-run improvements in the Bank's operations are still to come.

We have been fortunate, indeed, that our people have proved to be so resourceful and adaptable to the new conditions. It is only possible, it seems to me, to effect such a series of sweeping changes in an organization if employees give strong support. This we have always had and will continue to need in bringing our development plans to a successful conclusion.

Our emphasis on the human factor in building the Bank has led us to a manpower development programme which we

believe is second to none. The programme is many-faceted but its aim is simple: to nurture to full potential all the human resources we have. In this way, we are opening up a great many opportunities, not only for rapid career advancement but for genuine job satisfaction both for the people in the Bank and those who will join us in the future. We know that as we continue to grow, we will need many more people of management calibre. We feel we are now in a position to demonstrate to the young people of today that our Bank can provide them with challenging and rewarding careers.

Our concern with people, however, extends well beyond the confines of the Bank. For example, we have in operation a pilot project to assist under-privileged Canadian youths who wish to overcome deficiencies in their formal education. The programme includes on-the-job training and is designed to enable participants to meet educational requirements for meaningful employment. Thirty-four English-speaking young men and women are in the first group of participants and a French-speaking group will be organized shortly. It has been gratifying to observe the enthusiasm that this project has generated, not only among the young people involved, but in the business community generally.

On the lighter side, the Bank's Young Expos Fan Club is bringing a great deal of enjoyment to youngsters across Canada. More than 75,000 boys and girls have joined since the Club started last spring.

In these and many other ways we are dedicated to encouraging the development of programmes that put people in the forefront both within and outside our Bank.

Prices and Incomes Commission

Turning now to the developments of the past year, the Bank undertook early in the year, in line with a request from the Prices and Incomes Commission, not to increase service charges nor to raise the rate of interest received on loans unless there was a comparable increase in the rate paid on savings deposits. The Chairman has set out in his remarks the considerations that led us to agree to cooperate with the Commission in this endeavour.

In the course of the year, we did more than comply with the undertaking given and in a recent report, the Commission notes that the banks not only lived up to their commitments but, and here I quote from the report, "have gone beyond what was strictly required of them." Last June, we reduced the prime rate two weeks in advance of the remainder of the banking community and, at the same time, we brought down the rate of interest paid on our true savings accounts without reducing the rate paid on our ordinary savings accounts. In addition, not only did we refrain from raising service charges during the year, we removed the exchange charges on out-of-town cheques which meant a reduction of about 3½ million dollars in revenue for our 1970 fiscal year.

Domestic Banking

The growth of our domestic business during the year has been hampered by a generally restrictive monetary policy which, of course, had an important bearing on profits. Money supply in Canada was virtually unchanged from November through April and, for the year as a whole, average Canadian dollar deposits of all banks were only some 4% higher than in 1969, in contrast with the 10-13% increases recorded in recent years.

Loans increased at a relatively sluggish pace. This was particularly true in the first half of our fiscal year when, in the tight money conditions of the time, it was necessary for us to follow a very selective lending policy and, reluctantly, we had to turn aside many applications for loans from individuals and from businesses, large and small, which in normal times we would have gladly granted. So far as we were able, however, we gave preference to loans to small businesses and to loans in those areas of the country suffering from high rates of unemployment.

While the year has been one of relatively slow growth, we nevertheless continued to expand our marketing activities in a number of diverse ways, ranging from taking a fresh look at our advertising policies to developing an improved method of assessing the market potential for banking services.

We also gave increasing emphasis to our branch extension programme in line with a long-term policy of building up our representation in the most dynamic growth areas of the country. As a result, whereas we added only 6 offices to our domestic branch network in 1969, in the past year the net gain was 30, giving us at year-end a total of 1,069 offices in Canada.

Our large office projects, announced last year, have made good progress. The new Bank of Montreal building in Winnipeg, which will contain the divisional office as well as a major branch, will be ready for occupancy late next summer. Our main office in Quebec City will soon move into the new Place d'Youville building in the centre of the uptown district. The new Halifax building, which will contain the divisional office and the main branch, is now quickly rising above ground.

In addition, a new main office is planned for the large Hamilton Civic Centre development, now getting underway, and discussions are continuing with developers in other major centres.

On-Line Banking

Let me now bring you up to date on the Bank's vast on-line mechanization project that we announced a little over a year ago. This is going well and progress during the year has been right on schedule. When the Board gave approval to the five-year mechanization programme, it was realized that much of the success in meeting the development schedules would depend on whether we were able to train or hire a sufficient number of skilled personnel. Our recruiting campaign has been completely successful and we feel confident we now have the number of qualified people necessary to complete the project.

In addition to designing the system itself, a great deal of work is going forward in the area of overall control, planning and scheduling, the development of a teller training system, and the preparation of contracts for the purchase and rental of equipment.

Development costs have been heavy and these have been a factor in this year's profits. We were under no illusion, however, that it would be possible to complete such a huge mechanization programme without incurring, for a time, a substantial increase in our yearly outlays. The project, of course, was undertaken because of its long range cost-cutting potential and the need to stay in the forefront of technological advance not only to remain competitive but to be in a position to handle a swiftly growing volume of transactions. I am satisfied we are making good progress and that our decision to go ahead will be amply justified.

International Banking

The Bank has, in recent years, been playing an increasingly active role in international banking. These operations complement the domestic side of our business, with the export activities of Canadian customers measurably improved as a direct result. In addition, I might just note that a substantial portion of our current year's profits is derived from our activities abroad, benefiting both our shareholders and our silent partner — the federal treasury. This is a matter that many critics of chartered bank profits in this country overlook.

An impressive list of accomplishments can be credited to International Banking during the past year. In 1969, we began an export services programme to assist Canadian corporations who wished to expand their export business. Under the new designation of International Trade and Finance, the programme has been greatly expanded. A new office was opened in Toronto to complement our Montreal operations and officers from both centres engage in frequent meetings with branch and district managers to help them acquire an expertise in, and a sensitivity to, international business opportunities. In addition, regular calls are made on our major export customers and the Department stands ready to provide detailed assistance when and as required.

Our newly opened office in Hong Kong, gateway to China, has had an extremely

The Bank of Montreal Young Expos fan club for young girls and boys across Canada was formed in the Spring of 1970 with the Expos' popular outfielder, Rusty Staub, as president. By the end of the baseball season, some 75,000 youngsters had joined.

busy year. We are satisfied the establishment of an office there, in an area previously covered by our representative in Tokyo, has put us in a strategic position to take advantage of any increase in Canada-China trade that may follow the recent establishment of diplomatic relations between the two countries.

In another part of the Pacific Rim, we have opened a representative office in Melbourne, Australia and along with two United States, one Japanese, and one Australian bank, have formed the Australian International Finance Corporation Ltd. We are taking a leading part in the operations of this new company, the first active participation by a Canadian bank in the booming Australian economy.

Early last year a decision was made that our former affiliate, the Bank of London and Montreal Ltd., would revert to the sole ownership of the Bank of London and South America Ltd. The new arrangement permits BOLSA to concentrate its efforts in South America. For our part, it was agreed that we should absorb the Caribbean offices serving the public in the Bahamas, Jamaica and Trinidad and we made plans to do so. In Trinidad, however, before we could take over the operation, the government decided to acquire the BOLAM office to start a government-owned bank. Elsewhere, we have proceeded on schedule.

On July 15, the Bank of Montreal (Bahamas & Caribbean) Ltd. commenced operations. It is now operating two branches in the Bahamas and we recently incorporated another subsidiary bank in Jamaica to take over the former BOLAM business in that island. I am pleased to report that we received a very friendly reception from the authorities in both Jamaica and the Bahamas.

We have also opened a new representative office in Buenos Aires and another in Amsterdam, where we have, in addition, formed a wholly-owned subsidiary company, Hochelaga Holdings, N.V., which has been active in the Euro-dollar market.

The Year's Financial Results
While 1970 has clearly been a busy year for the Bank, as I mentioned earlier loan and deposit growth was only moderate. Average interest rates earned and paid last year, however, rose significantly over the previous year so that both revenues and expenditures were sharply higher. Revenues climbed 21.5% to $702 million while expenses were $609 million, up 22.6% over the previous year. The resulting balance of revenue of $93 million represented an increase of 15%.

After a transfer into our appropriations account and provision for income taxes, balance of profits for the year showed a modest gain. Dividends were increased by 5¢ a share bringing the total, including extras, to 75¢ a share in 1970, the thirteenth consecutive year in which we have been able to raise our dividend rate. It is something of a commentary on the times in which we live that while reported profits in 1970 amounted to $1.05 per share, of which shareholders received 75¢, income taxes per share amounted to $1.49!

When there is a slowdown in the economy, weaknesses can be expected to develop in borrowing accounts at greater frequency. In continuance of our prudent policy of long standing, it was necessary this year to set aside a somewhat larger amount than usual in our specific reservations account for possible losses with which we may be faced in the future. I can only say we are quite confident that full and adequate provisions have been made to cover all foreseeable involvements and when individual situations clarify, we will, of course, reverse the reservations should their need no longer exist.

Looking Ahead
Let me now turn briefly to the outlook for the Bank in the current fiscal year and beyond.

While we are looking for the pace of economic activity in Canada to accelerate as the coming year progresses, it seems altogether likely that unemployment will remain above desirable levels for some time. In this type of environment it would be reasonable to expect a continuation of easier monetary conditions and a consequent faster expansion of our domestic assets than in 1970. On the other hand, it seems altogether likely that there will be continued pressure on the spread between the average rate we earn on assets and the average rate we pay on deposits. On the

international side, while we can see some further avenues for profitable expansion abroad, we may not achieve the rate of growth we have been able to record in recent years and fully trained manpower will be a limiting consideration. In these circumstances, it will be particularly important to give close attention to all possible sources of sundry revenue and to continue to control expenditures very carefully.

All in all, we are looking for moderate progress in 1971. Looking beyond next year, I am confident that, with the personnel and systems we are developing, the groundwork is being laid for vigorous growth in the years ahead.

Other Business of the Meeting

Directors' Report
The directors take pleasure in submitting to the shareholders the 153rd Annual Report on the result of the Bank's operations for the year ended October 31st, 1970. (See page 18 for Statement of Revenue, Expenses and Undivided Profits).

During the year, Mr. William D. Mulholland of Montreal, Mr. S. Robert Blair of Calgary and Mr. David L. Nicolson of London, England were appointed to the Board.

In the financial year, 34 offices were opened in Canada and one in San Diego, California and six were closed; Representative's Offices were opened in Hong Kong, Melbourne, Australia, Buenos Aires and Amsterdam. As at October 31st, 1970 there were 1,090 offices of the Bank in operation.

Within the year we participated equally with four foreign banks in the Australian International Finance Corporation Limited and have formed a wholly-owned subsidiary company, Hochelaga Holdings N.V. in Amsterdam. Also, the Bank of Montreal (Bahamas & Caribbean) Limited and the Bank of Montreal Jamaica Limited commenced operations.

To Accumulated Appropriations for Losses as shown by the relative statement, there has been added an appropriation of $17,950,000 from the year's operations as indicated above, the related income tax on which is included in the provision for income taxes of $11,450,402, making total provision for income taxes $50,929,470. Out of Accumulated Appropriations for Losses amounts not otherwise provided have been drawn down for the diminution in the value of loans and investments which, in the opinion of management, is required after a careful evaluation of the assets of the Bank. The sum of $10,500,000 has been transferred from Undivided Profits to Rest Account.

The directors acknowledge with deep appreciation the loyalty of all personnel of the Bank and express their thanks for the capable manner in which they have fulfilled their responsibilities during the year.

Resolutions
It was moved by the Chairman, seconded by The Hon. Hartland deM. Molson, O.B.E.,

"That the Report of the Directors, as read, the Statement of Assets and Liabilities as at October 31st, the Statement of Revenue, Expenses and Undivided Profits and the Statement of Accumulated Appropriations for Losses, both for the financial year ended in October, be approved and adopted."

It was moved by Mr. H. C. F. Mockridge, Q.C., seconded by The Hon. Eric Cook, Q.C.,

"That clause (b) of By-law No. IV of the By-laws of the Bank enacted by the shareholders be amended by striking therefrom the figure '53' and substituting therefor the figure '52'."

It was moved by Mr. J. F. Close, seconded by Mr. T. C. Camp,

"That By-law No. VIII of the By-laws enacted by the shareholders of the Bank be and it is hereby amended by striking therefrom the words 'Two hundred and twenty-five thousand dollars' and substituting therefor the words 'Two hundred and seventy-five thousand dollars'."

It was moved by Mr. H. Roy Crabtree, seconded by Mr. Forrest Rogers,

"That Messrs. Campbell W. Leach, C.A., and G. Meredith Smith, C.A., be appointed auditors of the Bank for the ensuing year."

It was moved by Mr. D. R. McMaster, Q.C., seconded by Mr. Nathanael V. Davis,

"That 'We, the shareholders of the Bank of Montreal, pursuant to section 17, subsection 5, of the Bank Act, do hereby appoint Mr. G. Arnold Hart, or failing him, Mr. J. Leonard Walker, or failing him, Mr. F. H. McNeil, to be the proxy of the Bank of Montreal for and in its name to attend, act and vote in such manner as the said proxy may deem proper at any and all shareholders' meetings of Bankmont Realty Company Limited and of any other corporation controlled by the Bank.'

"That 'We, the shareholders of the Bank of Montreal, do hereby appoint Mr. H. M. Stuart, Jr. or, failing him, Mr. L. H. Boynton, to act as proxy for this Bank, to act and vote at any and all meetings of shareholders of Bank of Montreal (California), and at any and all adjournments thereof

and that the Chairman, or the President, or an Executive Vice-President, or a Vice-President located at Head Office, together with the Secretary or an Assistant Secretary of the Bank be and they are hereby authorized from time to time to execute such proxy and affix the seal of the Bank thereon, and that this resolution remain in effect until the next Annual General Meeting of the Bank of Montreal'."

Mr. L. G. McDougall, Q.C. nominated the respective persons whose names had been read by the Secretary for election as directors of the Bank for the ensuing year.

Vote of Thanks

A vote of thanks was moved by Mr. Donald S. Harvie, seconded by Mr. Bernard M. Lechartier.

Speaking to the motion, Mr. Harvie said:

"I take pleasure this morning in rising as spokesman for the 44,400 shareholders. May I formally move their appreciation and thanks for the quality of service and loyal dedication given this past year by this bank's 19,100 employees — wherever they serve — across Canada or offshore.

"In speaking to this motion it seems to me important to stress how difficult a task it is these days to look very far into the future and currently identify what circumstances may prevail and what services our customers may require in this fast changing world.

"It is an even more difficult assignment to plan for their prompt and efficient implementation in such a big nation and such an extensive organization. Mr. Hart, Mr. Walker, Mr. McNeil and their associates must provide the leadership and drive, to be enthusiastically carried out by our staff — after all the challenge is really everyone's in the Bank — and service to our customers our real business.

"Judging by the satisfactory current dividend increase; the demonstrated *relative* growth of the past two or three years; our plans to utilize the most modern tools of technology, and the rather special performance in offshore banking, the shareholders can view this performance with respect and satisfaction.

"I suggest this bank's main asset is, after all, our group of dedicated men and women. They fully deserve the shareholders' expression of confidence which has just been offered through me."

Mr. Lechartier said:

"Au cours du mois dernier, j'ai eu l'occasion de faire un voyage circulaire dans l'ouest du pays. J'y ai rencontré quelques membres du personnel et des cadres de la Banque de Montréal et je suis entré dans quelques-unes de ses succursales.

"Chaque fois, j'ai noté la cordialité — je dirais presque la gentillesse du premier accueil. Mais j'ai surtout été frappé par l'intérêt que tous ceux avec lesquels j'ai parlé prennent aux divers échelons de la hiérarchie.

"Nous savons tous que ce qui fait en dernier ressort la qualité d'une institution, c'est la qualité des hommes et des femmes qui la servent. Je crois pouvoir dire qu'à cet égard, notre Banque me semble assez bien partagée. Aussi est-ce avec plaisir que j'appuie la motion présentée par M. Harvie."

Mr. F. H. McNeil responded:

"It is my very pleasant duty, on behalf of all our personnel, to express sincere thanks to Mr. Harvie and to Monsieur Lechartier for their kind remarks and to the shareholders present for their warm reception of this motion.

"As the President mentioned, our personnel programmes are designed to give to each individual opportunity to grow — individual incentives, challenges and appropriate rewards — because we believe this builds a better organization.

"We are setting high objectives, but I am completely satisfied our employees will respond with enthusiasm and readily accept the increasing responsibilities we shall ask them to assume. This formal expression of the confidence of our shareholders and directors will, I know, be deeply appreciated by all employees."

Statement of Revenue Expenses and Undivided Profits

For The Year Ended October 31st	1970	1969
Revenue		
Income from loans	$543,758,414	$433,432,865
Income from securities	93,662,012	83,936,647
Other operating revenue	64,710,537	60,323,711
Total revenue	702,130,963	577,693,223
Expenses		
Interest on deposits	401,677,241	299,949,312
Salaries, pension contributions and other staff benefits (including additional contribution of $15,000,000 to the pension fund in 1969)	125,075,658	127,240,277
Property expenses, including depreciation	35,813,485	28,990,625
Other operating expenses, including provision for losses on loans based on five-year average loss experience	46,239,670	40,379,777
Total expenses	608,806,054	496,559,991
Balance of revenue	93,324,909	81,133,232
Appropriation for losses (to provide for contingencies — see note)	17,950,000	9,295,000
Balance of profits before income taxes	75,374,909	71,838,232
Provision for income taxes relating thereto	39,479,068	37,575,602
Balance of profits for the year	35,895,841	34,262,630
Dividends at 75¢ (1970) and 70¢ (1969) per share	25,628,587	23,183,991
Undivided Profits		
Amount carried forward	10,267,254	11,078,639
Undivided profits at beginning of year	361,129	313,740
	10,628,383	11,392,379
Transferred to rest account	10,500,000	11,031,250
Undivided profits at end of year	$ 128,383	$ 361,129

Note:
Under revised rules issued in 1969 by the Minister of Finance, transfers to accumulated appropriations for losses are currently not deductible in the determination of taxable income. The provision for income taxes relating thereto is included in the statement of accumulated appropriations for losses.

Statement of Accumulated Appropriations for Losses

(Bracketed amounts are deductions)

For The Year Ended October 31st	**1970**	1969
Accumulated appropriations at beginning of year		
General	**$92,938,313**	$100,637,622
Tax-paid	**11,962,536**	7,932,153
Total	**104,900,849**	108,569,775
Appropriation from current year's operations	**17,950,000**	9,295,000
Loss experience on loans for the year, less provision for losses on loans (included in other operating expenses) based on five-year average loss experience	**(10,037,009)**	(1,238,728)
Profits and losses on securities, including provisions to reduce securities other than those of Canada and provinces to values not exceeding market	**(2,291,860)**	(8,128,741)
Other profits, losses and non-recurring items, net	**(1,401,745)**	376,543
Provision for income taxes	**(11,450,402)**	(3,973,000)
Accumulated appropriations at end of year	**$97,669,833**	$104,900,849
Accumulated appropriations at end of year		
General	**80,472,179**	92,938,313
Tax-paid	**17,197,654**	11,962,536
Total	**$97,669,833**	$104,900,849

Statement of Rest Account

Balance at beginning of year	**$223,058,692**	$175,000,000
Premium received on capital stock subscriptions	**941,308**	37,027,442
Transferred from undivided profits	**10,500,000**	11,031,250
Balance at end of year	**$234,500,000**	$223,058,692

Statement of Assets and Liabilities

October 31st, 1970

Assets	1970	1969
Cash Resources		
Cash and due from banks	**$1,734,692,165**	$1,698,588,791
(Term deposits at interest: 1970-$1,202,060,678; 1969-$1,045,986,420)		
Cheques and other items in transit, net	**54,504,463**	34,838,786
	1,789,196,628	1,733,427,577
Securities		
Securities issued or guaranteed by Canada, at amortized value	**1,287,130,075**	1,043,839,711
Securities issued or guaranteed by provinces, at amortized value	**78,275,178**	67,757,758
Other securities, not exceeding market value	**207,790,460**	210,022,552
	1,573,195,713	1,321,620,021
Loans		
Day, call and short loans to investment dealers and brokers, secured	**211,771,782**	272,047,139
Other loans including mortgages, less provision for losses	**4,768,810,757**	4,495,766,323
	4,980,582,539	4,767,813,462
Bank premises at cost, less amounts written off	**88,738,808**	83,557,545
Securities of and loans to corporations controlled by the bank	**15,898,739**	15,852,714
Customers' liability under acceptances, guarantees and letters of credit, as per contra	**274,572,583**	220,020,423
Other assets	**7,865,638**	10,572,446
	$8,730,050,648	$8,152,864,188

J. L. Walker,
President

F. H. McNeil,
Executive Vice-President
and General Manager

Note:
The above statement includes the assets and liabilities of the Bank of Montreal (California), Bank of Montreal (Bahamas & Caribbean) Limited and Hochelaga Holdings N.V., wholly owned subsidiaries.

Liabilities	1970	1969
Deposits		
By Canada	$ 72,499,304	$ 100,173,810
By provinces	112,845,338	84,682,976
By banks	990,450,464	674,625,856
Personal savings payable after notice, in Canada, in Canadian currency	3,522,697,039	3,220,523,042
Other	3,324,466,190	3,426,310,232
	8,022,958,335	7,506,315,916
Sundry Liabilities		
Acceptances, guarantees and letters of credit	274,572,583	220,020,423
Other liabilities	31,877,764	30,051,691
	306,450,347	250,072,114
Accumulated Appropriations for losses	97,669,833	104,900,849
Shareholders' Equity		
Capital stock —		
Authorized —		
50,000,000 shares of $2 each		
Issued and fully paid —		
34,171,875 shares	68,343,750	68,155,488
Rest account	234,500,000	223,058,692
Undivided profits	128,383	361,129
	302,972,133	291,575,309
	$8,730,050,648	$8,152,864,188

Auditors' Report to the Shareholders of the Bank of Montreal

We have examined the Statement of Assets and Liabilities of the Bank of Montreal as at October 31st, 1970 and the Statement of Revenue, Expenses and Undivided Profits and Statement of Accumulated Appropriations for Losses for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Bank as at October 31st, 1970 and its revenue, expenses and undivided profits and accumulated appropriations for losses for the year then ended.

Auditors

C. W. Leach, C.A.,
of the firm of McDonald, Currie & Co.

G. Meredith Smith, C.A.,
of the firm of Touche Ross & Co.

Montreal, November 30th, 1970.

Controlled Corporations

Bank of Montreal Trust Company

Statement of Assets and Liabilities, December 31st, 1969 (U.S. Currency)

Assets		
Due from banks:		
Approved reserve depositaries	$4,020,101	
Other banks and bankers	86,019	$4,106,120
Investments:		
United States government securities	3,382,739	
Other	590,707	
(Quoted market value $3,807,622)		3,973,446
Other assets		72,559
		$8,152,125
Liabilities		
Deposits:		
Demand	$5,459,908	
Time	6,502	
Due to banks	1,389	$5,467,799
Income taxes		119,486
Other liabilities		5,812
		5,593,097
Shareholders' Equity		
Capital stock —		
Authorized, issued and fully paid —		
10,000 shares of $100 each	$1,000,000	
Surplus	1,000,000	
Undivided profits	559,028	2,559,028
		$8,152,125

Note:
The charter was acquired in March, 1937, for the purpose of more satisfactorily performing certain functions in New York on behalf of the bank's clients. The capital stock, with the exception of the directors' qualifying shares, is entirely owned by the bank, and is carried in the bank's financial statement at a value of $1,489,551.

Hochelaga Realty and Development Company

Statement of Assets and Liabilities as at October 31st, 1970 (U.S. Currency)

Assets		
Cash		$ 103,629
Accounts receivable		7,056
Prepaid expenses		85,225
Land and buildings — as appraised on June 30th, 1970 plus additions at cost less accumulated depreciation		8,967,398
		$9,163,308
Liabilities		
Accounts payable and accrued expenses		$ 37,140
Income and other taxes		17,668
		54,808
Shareholders' Equity		
Capital stock — Authorized, issued and fully paid		
8,500 3% redeemable preferred shares of $100 each	$ 850,000	
100 common shares of $100 each	10,000	
	$ 860,000	
Appraisal surplus	1,803,016	
Contributed surplus	6,291,000	
Retained earnings	154,484	9,108,500
		$9,163,308

Note:
The company was granted corporate existence by the State of New York on May 27th, 1909. The object of its formation was to enable the bank to hold title to real estate in New York City. The capital stock is entirely owned by the bank, and is carried in the bank's financial statement at a value of $9,144,188.

Controlled Corporations
(continued)

Bankmont Realty Company Limited
And its wholly-owned subsidiary company

Condensed Consolidated Statement of Assets and Liabilities, October 31st, 1970

Assets		
Cash		$ 271,153
Accounts receivable		6,234
Other assets		194,519
Real estate and buildings — at cost less accumulated depreciation		6,857,708
		$7,329,614
Liabilities		
Income and other taxes		$ 3,726
Loan from Bank of Montreal		265,000
		268,726
Shareholders' Equity		
Capital stock —		
Authorized —		
100,000 shares without nominal or par value		
Issued and fully paid —		
100,000 shares	$5,000,000	
Retained earnings	2,060,888	7,060,888
		$7,329,614

Notes:

1. The capital stock is entirely owned by the bank and is carried in the bank's financial statement at a value of $5,000,000.

2. Bankmont Realty Company Limited owns the entire capital stock of a subsidiary company, The St. James Land Company Limited.

Auditors' Report to the Shareholders of the Bank of Montreal

We have examined the statement of assets and liabilities of the controlled corporations as at the dates indicated. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying statements of assets and liabilities present fairly the financial position of the corporations as at the dates indicated.

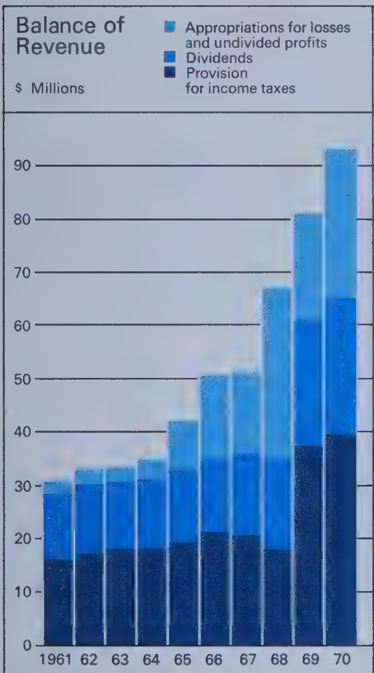
Auditors

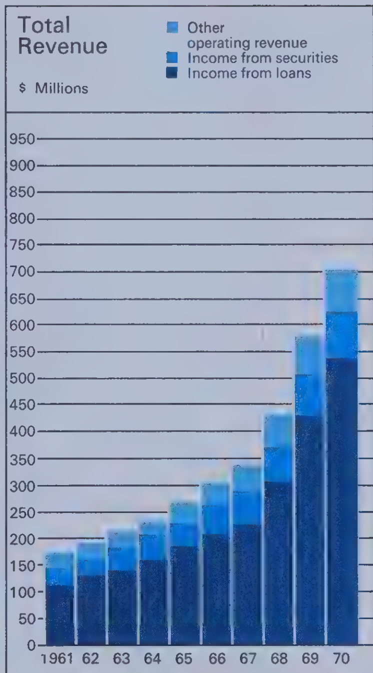
C. W. Leach, C.A.,
of the firm of McDonald, Currie & Co.

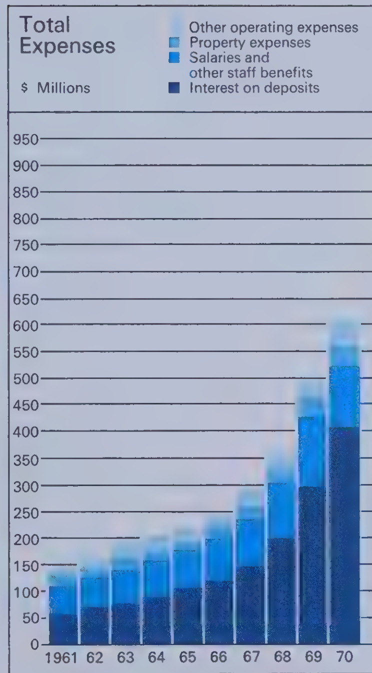
G. Meredith Smith, C.A.,
of the firm of Touche Ross & Co.

Montreal, November 30th, 1970.

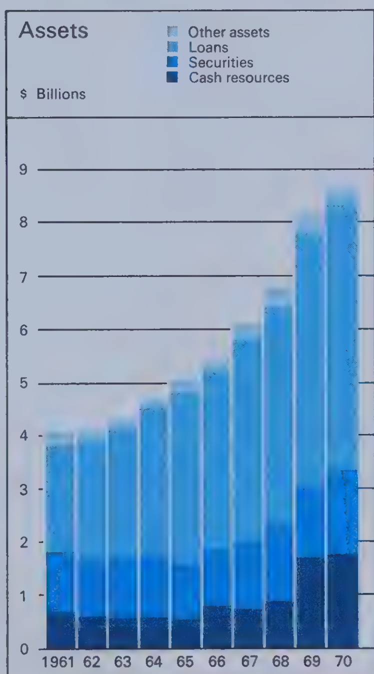
Ten Years of Growth

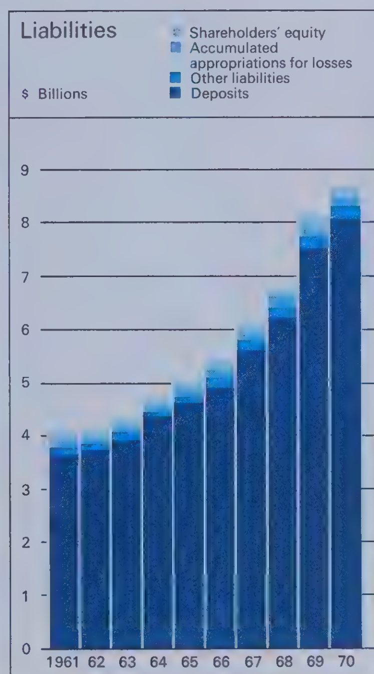






These charts illustrate the growth of the Bank of Montreal over the past 10 years. During this period the number of branches of the Bank and its subsidiaries increased from 811 to 1,088 in Canada, the United States, United Kingdom, Bahamas and the Caribbean, and Continental Europe. Expansion of the Bank's International activities is also reflected in the increase from eight to 13 Representatives Offices during the past three years. Covering the world, these offices are located in the Far East, United States, Mexico and South America, Australia and Europe. The number of Bank employees has grown from 14,120 in 1960 to 19,180 today.





First with People

Never in the history of Canadian banking have there been greater career opportunities for highly motivated people with a wide variety of skills and abilities.

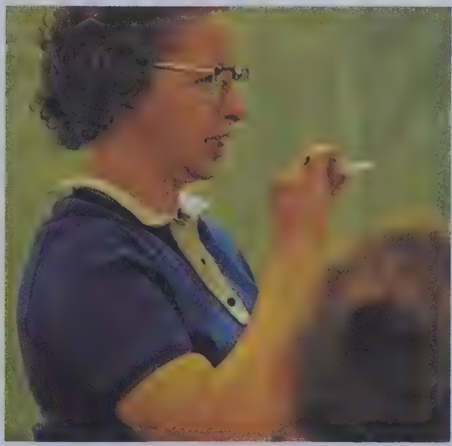
The increasing number of branches, new services to customers, new marketing techniques, the growth of international banking activities; these and other factors all contribute to the accelerating need for well-qualified people.

As a result, developing people has become "a way of management" at the Bank of Montreal. It is all based on the premise that the only means to realize the promise of the Bank's future is to have the organization composed of people who can realize the promise of their future — people who can achieve their potential within the Bank.

These pages tell something of how the Bank nurtures that potential, how people grow with the Bank of Montreal, and how this leads to better customer service.

For a person already in the Bank, or for one coming in fresh with a degree or diploma or from a job in another business, there is a way to learn a new job quickly, without the long apprenticeship reminiscent of bygone days. Bank training is carried out with a keen sensitivity to an individual's strengths, to his career aspirations, and to opportunities available in our growing organization.

For most people, the starting point for



training and development is at the divisional level. There are six well-equipped and well-staffed regional training centres across the country, in Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver. In these, the process of learning about banking begins — the banking of tomorrow as much as the banking of today. Practical training takes place in branches and, as well, entrants commit themselves to self-study and involvement in the educational process.

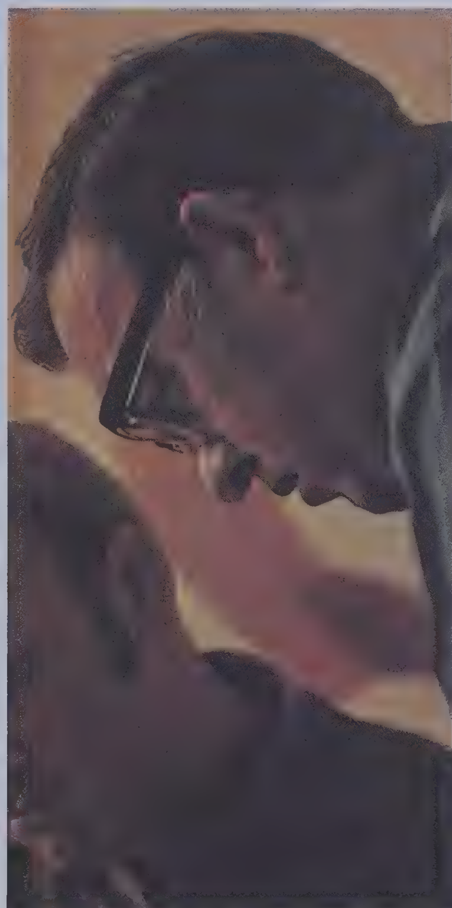
The Manpower Development Centre at Head Office coordinates training and education bankwide and keeps in touch with the latest trends both in banking and training. Continuous research into future training requirements is conducted as are

studies in new educational techniques. The effectiveness of all training programs is under constant evaluation.

Highly-qualified trainers make use of programmed learning, video-tape, film, audio equipment — in short the whole range of modern aids to faster and more comprehensive learning. And new methods of self-instruction and on-the-job training are an integral part of the program. But the highest value is placed on experienced operating staff passing their knowledge on to the staff-in-training.

It is all directed at one crucial objective — to foster the human knowledge and skills required to carry the Bank through the coming years of rapid expansion and change and growing customer needs. The Bank's staff has tripled in the past 20 years, and there is a great deal of growth ahead. As the Bank evolves it will need a larger and more varied pool of management capabilities than ever before.

One way this need is being met today is by providing more training opportunities for people at all levels in the Bank. Also in use is a program, new to Canadian banking, of attracting qualified people from other fields of business and then having them add banking knowledge and experience to those they already possess. It is possible for them to assume management positions in as little as a year.



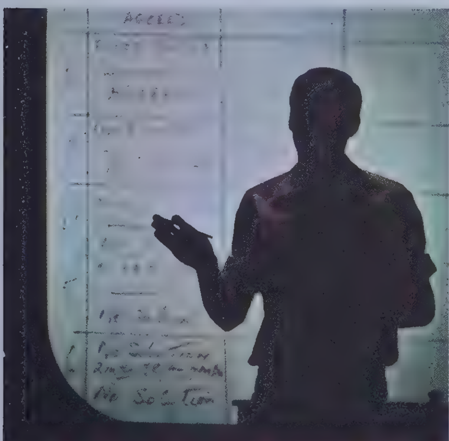
The same applies to the university graduates. Each is provided with a carefully-arranged mix of practical training in branches, courses at the regional centres and head office, and self-study programs.

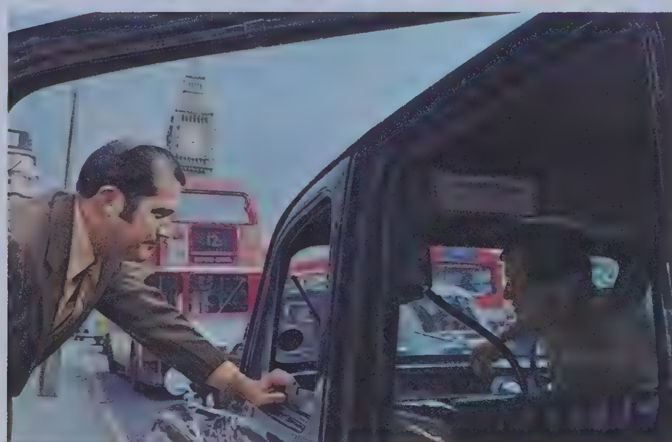
The philosophy in all cases is that people should be offered as much challenge as they can handle — but that their individuality should be respected by allowing them, within broad limits, to set their own learning pace.

People develop by teaching themselves and each other through participation in seminars at which groups are given problems to assess and solve together. Sessions such as these make up a considerable part of the live-in courses.

The idea of enabling the staff-in-training to tackle problems by themselves goes beyond the theoretical, however. After the initial courses, entrants go to branches or staff departments for several weeks to put into practice what they have learned. When they return to classes at the regional and head office centres, they have a firm grasp of how the theories they are being taught apply to real-life banking.

An essential feature of the approach taken to training is to equip the men and women in the Bank to keep up intellectually with the changes in the fast-moving business world around them. So there is a full range of management education, covering such subjects as the job of management, marketing and credit.





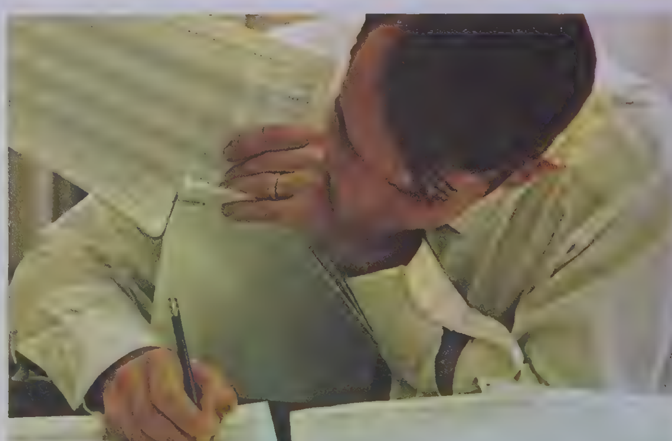
On a broader scale, there is a constant effort to build a greater storehouse of knowledge among our people. Staff members are encouraged, through a tuition refund plan, to seek professional status by becoming Fellows of the Institute of Canadian Bankers. Other self-development activities, including university and professional courses, are similarly encouraged.

A modern bank requires specialists in many fields — credit, foreign exchange, personnel, marketing, economics to mention a few. Some have gained their expertise in the Bank, while other specialists are obtained through our world-wide recruiting program.

A good example is in computer technology.

The Bank of Montreal is moving fast towards the day when it will initiate North America's first completely computerized banking system. In order to have the manpower to design, implement and operate the system, the Bank has an extensive training scheme to develop new skills among existing staff members and recruits.

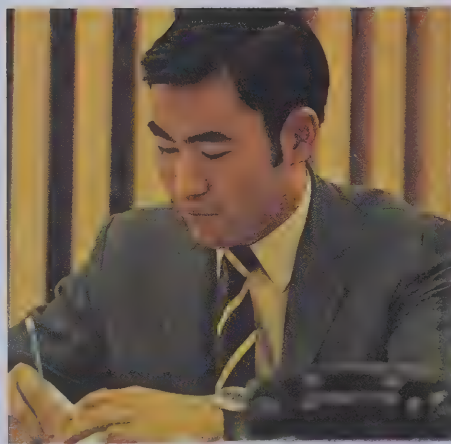
In the past few years, the Bank of Montreal has become a growing force in international banking. The accelerated international growth has created the need to build up an expanding team of people capable of handling the intricacies of financial operations on a world-wide scale.



As a result, the International Division has implemented a program to provide concentrated experience in foreign exchange dealings, trade transactions and the like to the people who will become the Bank's international banking specialists. People from offices around the world come to Montreal for special courses.

The spread of the Bank's activities internationally has opened up a host of opportunities for future administrators, particularly those who have a capability in more than one language — and we teach and give financial support for courses in languages too.

The role of women in banking today is growing both in terms of their numbers on



the staff and in the enlarged responsibilities they are assuming. The Bank's policy is to seek out, train, and promote women willing to accept administrative posts. The recent result has been a significant increase in the number of women in managerial positions. This is one more manifestation of the belief that, by providing more opportunities to more people, the bank will enhance its ability to meet the future.

Are we succeeding? At any given time now, almost one-third of our total staff is engaged in continuing education of one form or another. This takes in everyone from a head office executive attending intensive university courses in management science to a young secretary studiously learning French.

As long as we have this many people willing to take the plain hard work of learning, we know we are succeeding. For the sum of their efforts is the main strength of our Bank.

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San Francisco 94104.

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Sacramento 95814.

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Managing Director
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